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C O N F I D E N T I A L SECTION 01 OF 03 DAMASCUS 006389

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TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [SY](#)

SUBJECT: STATUS OF SYRIAN OIL AND GAS SECTOR (C-TN5-01284)

REF: A. REF A: STATE 213517

[B](#). REF B: DAMASCUS 6015

Classified By: CDA: Stephen Seche for Reasons 1.5 b/d

(C) Summary. The following is a response to INR tasker C-TN5-01284 that requested specific information on Syria's oil and gas sectors and plans for future development. Posts included on distribution have private or state-owned companies either currently involved in the sector or pursuing new investments in Syria. Our response follows the numbering of questions in INR,s original tasker (ref A). End Summary.

[A](#). (U) Oil production and economics:

[1](#). (C) SARG long-term plans, (five to ten years), for foreign upstream investment are to encourage outside investment in the exploration areas not held by the Syrian Petroleum Company (SPC). There are currently no plans to open up any of the areas held by SPC at any point in the future. As a result, industry sources are critical of the SARG and SPC,s investment plan for the sectors (ref B). They believe the most promising areas for future development and investment in the oil sector are held by SPC, but SPC lacks the institutional management ability to exploit the areas though it may be able to contract some of the technical expertise it lacks. They argue that unless the SARG changes its development policy, oil production will continue to decline.

[2](#). (C) The SARG will continue to hold future bid rounds, but none are currently scheduled. Industry contacts have commented to us, however, that the SARG does consider unsolicited bids from international oil companies (IOC), especially majors, on any areas not held by SPC irrespective of formal bid rounds. Concerning the specific countries INR queried us on, the following companies are currently pursuing investments in Syria: INA (Croatian), Tataneft (Russian), Stroitransgas (Russian), Soyuz Gasneft (Russian), the National Petroleum Company of China, and ONGC (Indian). (Note. There are additional European and Arab companies pursuing investments in Syria not listed. End note.)

[3](#). (U) Deputy PM Dardari announced at a recent press conference that the investment value of pending oil/gas projects equals 4.4 billion USD. The SARG,s goal is to flat line oil production while increasing natural gas production. Failing that, it hopes to slow down the decline in oil production, and resulting revenue decline, as much as possible.

[4](#). (C) Industry contacts tell us that the general terms and incentives offered by the SARG are similar to those currently offered by Egypt, and are better than those offered by most other countries in the region. The specific terms for each production sharing contract (PSC) are, of course, negotiable. The negotiating position of majors is generally much stronger than for independents or foreign state-owned companies and so their resulting PSCs are more favorable as well. Industry contacts tell us that the SARG,s modest exploration-phase investment requirement, generally only requiring seven million dollars in spending, encourages companies to pursue opportunities in the sector while watching the current political situation play out.

[5](#). (C) The petroleum business sector in Syria is friendly and welcoming towards the USG and US IOCs. Three small independents were referred to at the SARG oil and gas symposium in November as US companies (Ref B). All were welcomed and report in no way feeling disadvantaged by their nationality. IOC,s operating in Syria are working to mitigate their dependence on items, from computer systems to drill bits, that require spare parts with US content. All IOCs are watching the Mehliis investigation and weighing the political risk associated with proceeding with pending projects. US companies involved in the sector have largely divested of their interests in Syria. No other country,s IOCs have taken similar action. The local general managers of Shell, Total, and PetroCanada all tell us they intend to remain in Syria. PetroCanada,s board is scheduled to meet on December 15, however, to decide the company,s level of continued involvement.

16. (C) Syria has been suffering a brain drain to the Gulf in its oil and gas sectors for decades. SPC limits the wages IOCs can pay Syrian workers in order to not lose its own work force to them. Subsequently, IOCs are required to import most of their professional and skilled staff, as Syrians with skills and experience often depart for much higher wages in the Gulf. The nationality of the expats depends largely on the IOC itself.

17. (C) Contacts in the local industry tell us that there are Syrians with western education and experience in the field but SPC rules preclude the IOCs from being able to offer Syrians a competitive wage. As one told us, &I can,t give a Syrian 2000 USD per month under Syrian law, but I can legally hire a Westerner for 250,000 USD to do the same job.8 IOCs have the same problem with retaining Syrians once they develop the necessary skills.

18. (C) According to the Iraqi mission in Damascus, there have been no further bilateral discussions between the SARG and ITG about building a new 1.4 million bpd crude oil pipeline between the two countries. The local Total general manager commented to us that his company had done a feasibility study on a 1.2 million bpd pipeline along the route of the existing Kirkuk-Banyas pipeline, but has no plans to proceed further until the political situation improves.

19. (U) The French firm BEICIP Franlap completed a \$80 million modernization project on the Banyas refinery in 2001. An Iranian company, NamVaran, is currently executing a \$835 million contract to modernize the Homs refinery to increase the production of middle distillates and improve the quality of all of the refinery,s products. There have been recent press reports naming Russian, Chinese, and French firms as all interested in bidding on additional modernization projects. The refineries were built with Soviet technology and are reportedly still in dire need of maintenance and upgrade.

(C) There have been conflicting public statements by officials on the specifics, but the SARG is pursuing plans to build three new refineries. In the last couple of months, the Minister of Petroleum and Natural Resources, Mohammed Haddad, has announced the SARG,s intent to pursue: a 70,000 bpd joint-venture refinery with a Chinese company that is currently in the feasibility study phase; a 140,000 bpd refinery to be built by the Russian Stroytransgaz company for two billion USD which lacks financing; and a 140,000 bpd refinery for the Deir Azur area that Haddad claims to be discussing with various companies.

1B. Natural Gas Production:

11. (U) Syria is part of Arab Gas Pipeline project which extends from Egypt to Turkey. On December 5, the SARG signed a contract with Stroitransgas (Russian) to build the first portion of the pipeline on Syrian territory, from the Jordanian border to Homs, at a cost of 140 million USD.

12. (C) It is conventional wisdom with local contacts in the industry that the future of the gas sector in Syria lies with collaboration with Iraq as Syria does not have sufficient reserves to support significant exports or downstream development. No sector contacts, however, were aware of any ongoing collaboration to develop the Akkas gas field. The Iraqi mission was likewise unaware of any government to government discussions or plans for collaboration.

13. (C) On the same day as signing its pipeline contract, Stroitransgas signed a 200 million USD contract to build a gas processing plant in the center of the country. In spite of a reported lack of experience, Stroitransgas beat out a competing consortium, which had participated in constructing a similar facility with Conoco-Phillips in the Palmyra area, to win the contract. Marathon, PetroCanada, INA (Croatian), and the Syrian Gas Company (SGC) a state-owned company) are currently negotiating &the middle area gas project8 to construct the other infrastructure necessary to bring the natural gas in their respective areas to market. SGC will buy the gas. Under the proposed terms of the contract, SGC would be required to purchase a certain amount of gas daily that it would in turn sell to Syrian power plants. There is a plan to build an additional gas pipeline from SPC,s gas fields in the center of the country to Aleppo. There are no current plans for gas export given the current levels of production. If new gas is brought on-line, the Arab gas pipeline would provide the infrastructure for export to Turkey, and possibly on to Europe.

14. The pipeline to Lebanon is completed but no gas is being exported. The SARG claims that current production levels are insufficient to support exports. When pushed, it further claims that US sanctions preclude it from acquiring necessary software and other parts to make the pipeline fully operational.

